



VIRGINIA FOUNDATION FOR HEALTHY YOUTH

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

Our audit of the Virginia Foundation for Healthy Youth (Foundation) for the year ended June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the Foundation's financial system;
- a matter involving internal control and its operation necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDING AND RECOMMENDATION	1-2
FOUNDATION BACKGROUND	3-4
INDEPENDENT AUDITOR’S REPORT	5-6
FOUNDATION RESPONSE	7
BOARD OFFICIALS	8

AUDIT FINDING AND RECOMMENDATION

Improve Controls over Payroll and Retirement Information

Condition

The Virginia Foundation for Healthy Youth (Foundation) does not have adequate controls in place to ensure that payroll and retirement information for their employees is accurate. The Foundation has an agreement with the Department of Health (Health) to perform payroll services for the Foundation. However, the Foundation cannot rely solely on Health and still needs to have controls in place to ensure that payroll and retirement data is accurate for their employees.

Specifically, the Foundation is confirming monthly to the Virginia Retirement System (VRS) that the employee retirement data in the retirement system is accurate without performing the required reconciliations between the Personnel Management Information System (PMIS) and the MyVRS Navigator (VNAV) system or reviewing the required error reports. In addition, in six out of the 12 months, in the period under audit, the confirmation occurred after the deadline set by VRS. The Foundation also has not implemented any policies and procedures to ensure continued compliance.

Finally, The Foundation does not review payroll amounts prior to the semi-monthly payroll certification performed at Health to ensure complete and accurate payrolls. Although Health performs the payroll functions for the Foundation, Health is unable to determine and is not ultimately responsible for the completeness and accuracy of the Foundation's payroll.

Criteria

Commonwealth policies (Commonwealth Accounting Policies and Procedures Manual Section 50410) require each agency to reconcile VRS contributions monthly. Section 50805 requires each agency to review the payroll Edit Report 10 at least once prior to certifying payroll. This listing must be reviewed for accuracy, particularly to ensure changes are accurately reflected in employee net pay. Evidence of the review should be provided through initials or signatures, as well as the date of the review.

Consequence

Because the Foundation is not reconciling PMIS and VNAV, individual employees' retirement calculations and contributions may be incorrect. By not reviewing the required error reports, the Foundation is unaware when information does not transmit correctly between the human resource system, PMIS, and the retirement system, VNAV; and therefore, the Foundation cannot make appropriate corrections timely.

Every month the Department of Accounts (Accounts) performs a high-level reconciliation of the payroll system and VNAV and then processes an Interagency Transfer for the difference between what the Foundation confirmed in VNAV and the retirement contributions withheld and paid by the agency. Accounts cannot perform this reconciliation until all agencies, such as the Foundation, confirm their contributions.

Improper review of the payroll before it is certified can lead to late, missing, incorrect, or unauthorized payments.

Cause

The Foundation staff have not participated in any VNAV trainings conducted by Accounts and VRS; and therefore, were not aware of the monthly deadline for confirming the contribution snapshot or the purpose, and importance, of the error reports.

Additionally, the agreement between Health and the Foundation does not outline the delegation of responsibility to review the payroll, before certification, to the Foundation.

Recommendation

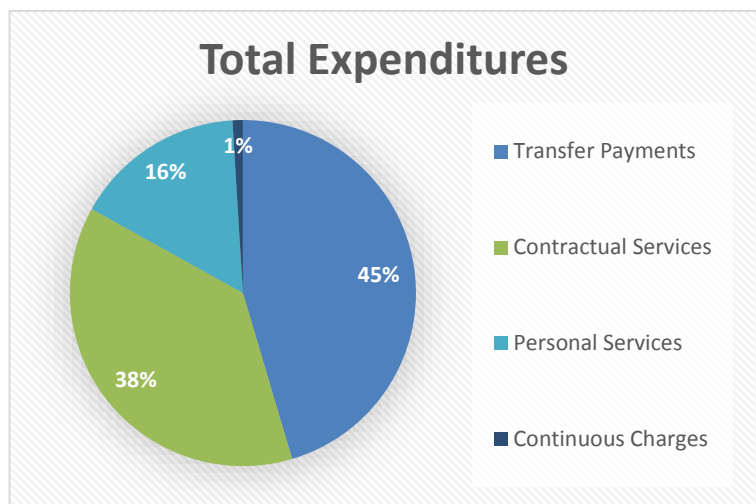
We recommend that the Foundation put adequate controls in place to ensure that retirement information for employees is accurate. This should include ensuring PMIS and VNAV properly reconcile with one another, reviewing the error reports, and clearing all exceptions before confirming the retirement data monthly by the imposed deadline. The Foundation should also implement policies and procedures to ensure continued compliance with VNAV requirements.

In addition, we recommend the Foundation implement internal controls to ensure the semi-monthly payroll payments are accurate before they are paid.

FOUNDATION BACKGROUND

The Virginia Foundation for Healthy Youth (Foundation) annually receives 8.5 percent of the Commonwealth of Virginia's portion of funds from the Master Settlement Agreement with tobacco manufacturers. A Board of Trustees (Board), comprised of 23 members, governs and administers the Foundation. The Board establishes the Foundation's budget and criteria and procedures for distributing money from the Virginia Tobacco Settlement Fund. The Foundation uses its funding to finance educational and awareness programs on the health effects of tobacco use and obesity on youth. The Foundation also uses funds to conduct research related to the prevention of tobacco use among youth.

A breakdown of the expenditures at the Foundation for fiscal year 2014 are presented below by major object. Note the top three expenditures are transfer payments (grants), contractual services (contracts), and personal services (payroll).



Source: Commonwealth Accounting and Reporting System

The Department of Health (Health) acts as the fiscal agent for the Foundation and provides fiscal and payroll services. An agreement has been in place defining these services for over 12 years. The agreement states Health is responsible for, but not limited to, the following:

- Prepare, audit, and certify semi-monthly payrolls for all classified and wage employees.
- Prepare all payroll reports.
- Reconcile payroll transactions between the Commonwealth's Integrated Payroll and Personnel System and the Commonwealth Accounting and Reporting System.
- Prepare the Virginia Retirement System (VRS) reconciliation.

Since the last modification to the agreement, VRS implemented a new system, the myVRSnavigator (VNAV) system, for agencies to ensure their retirement contributions are accurate. The reconciliation requirement with the new system requires much more involvement from the individual agencies and requires the agencies to certify monthly that the data in VNAV is

correct. Health does not have access to VNAV on behalf of the Foundation; and therefore, they cannot certify or reconcile the data for the Foundation. VRS has instituted trainings and payroll bulletins since the roll out in 2012 to assist agencies in complying with the new requirement.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 6, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Foundation for Healthy Youth** for the year ended June 30, 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and the Foundation's financial system, review the adequacy of the Foundation's internal controls, and test compliance with applicable laws, regulations, contracts and grant agreements.

Audit Scope and Methodology

The Foundation's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Master Settlement Agreement revenue
Contractual and grant management

Vendor payments
Payroll
Small Purchase Charge Card

We performed audit tests to determine whether the Foundation's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Foundation's operations. We tested transactions and performed analytical procedures, including budgetary analyses.

Conclusions

We found that the Foundation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the Foundation's financial system. The Foundation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a matter involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation."

Exit Conference and Report Distribution

We discussed this report with management on April 6, 2015. Management's response to the finding identified in our audit is included in the section titled "Foundation Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS



The Honorable Martha Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

I appreciate the opportunity to provide comments in response to the Virginia Foundation for Healthy Youth's (VFHY) recent financial recording for fiscal year 2014. We appreciate the assistance from your team regarding methods to improve controls for payroll and retirement information identified during our FY14 audit and offer the following response:

In the area of payroll processes, VFHY has a Memorandum of Agreement (MOA) with the Virginia Department of Health (VDH) for fiscal and payroll services. It specifies the preparation, audit and certification of payrolls are the responsibility of VDH, and VDH is accountable for ensuring that source documentation received from VFHY matches CIPPS and the Edit Report 10. This accountability is also reflected by DOAs Authorized Signatory Form which identifies VDH fiscal staff as authorized persons to approve VFHY's payroll expenditures. VFHY concurs that it can benefit from improving internal controls for payroll by reviewing the Edit Report 10 prior to VDH certification. Therefore, VFHY has developed a written procedure outlining the steps to review payroll for accuracy and communicate with VDH regarding discrepancies, as well as to initial and date the Edit Report 10's prior to payroll certification deadlines. The MOA with VDH will be updated to reflect this change.

VFHY appreciates the information provided by APA regarding the requirements and processes to reconcile VNAV. During the initial implementation of VNAV there was limited guidance regarding how to perform the reconciliation process. Prior to receiving guidance, VFHY used various reports and access to VRS and PMIS to perform individual audits on every employee to ensure the accuracy of retirement data. In addition, VFHY confirmed that every employee has access to their accounts through VRS and Navigator websites, and encourages them to periodically review their retirement information. Based on APA's recommendation, VFHY has developed a written procedure to ensure data accuracy and compliance with VNAV requirements. This procedure includes reviewing the PMIS cancelled record report prior to confirming the monthly snapshot and ensuring this confirmation is done in a timely manner according to VRS requirements.

Again, thank you for a thorough review and recommendations to improve our controls.

Sincerely,

A handwritten signature in black ink that reads 'Marty H. Kilgore'.

Marty H. Kilgore
Executive Director

BOARD OFFICIALS

Marty Kilgore, Executive Director

Delegate John M. O'Bannon, III, M.D., Chairman

Sandy L. Chung, M.D., Vice-Chairman

Valerie L. Bowman, M.D., FAAP	Robert Leek
January Britt	Marissa Levine, M.D.
Edda Collins Coleman	Sarah Tollison Melton, PharmD
Stacey M. Ely	The Honorable John Miller
The Honorable Thomas A. Garrett, Jr.	Christopher S. Nicholson, M.D.
The Honorable T. Scott Garrett, M.D.	Jeffrey L. Painter
Glory Gill	Kristina N. Powell, M.D.
Sarah Bedard Holland	Davis C. Rennolds
Ritsu Kuno, M.D., FCCP	Vineeta Shah, MHS, R.D.

India Y. Sisler, M.D.

Youth Members

Laura Beamer
Jimmy Jankowski